



MARKET ALERT

Friday 28 August 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6639	-0.0002
NZD/AUD	0.9146	-0.0007
NZD/JPY	70.75	-0.23
NZD/EUR	0.5616	-0.0025
NZD/GBP	0.5029	-0.0007
NZD/CNH	4.5733	0.0517
AUD/USD	0.7259	0.0003
AUD/EUR	0.6141	-0.0023
EUR/USD	1.1820	0.0049
USD/CNH	7.1227	0.0804
GBP/USD	1.3202	0.0015
EUR/GBP	0.8954	0.0027

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.28%	0.09%
2 year swap	0.09%	0.15%
10 year Govt	0.57%	0.92%

Why not just say “lower for longer?”

In his much-anticipated virtual Jackson Hole speech, Federal Chair, Jerome Powell, finally unveiled the Fed’s new approach to setting US monetary policy. The new strategy will seek to average inflation at 2.0% rather than targeting the level. This subtle change will allow for price pressures to overshoot after periods of weakness, implying that the Fed will allow inflation and employment to run higher, for longer, as interest rates are kept at lower levels.

It also adjusted its view of full employment to permit labour-market

gains to reach more workers, as Powell stated *“maximum employment is a broad-based and inclusive goal. This change reflects our appreciation for the benefits of a strong labour market, particularly for many in low- and moderate-income communities.”*

Fed member, Robert Kaplan, stated later *“A moderate overshoot on inflation probably means 2.25-2.50%”* but then warned against the expectation that easy money will last forever stating *“Don’t rely on these programmes indefinitely.”*

While the new strategy is being implemented to tackle years of low inflation, and the merits of inflation targeting are admirable, it should be remembered that since the Fed officially set its inflation target at 2.0% in 2012, it has consistently fallen short of that objective, averaging just 1.4%.

Overall, markets had largely anticipated Mr Powell’s inflation adjusting target and, as a result, Asian and European markets eased lower while US indices firmed. The real impact was felt in the bond markets as the US treasury curve steepened with the 10-year yield climbed to 0.75%. Commodity prices were mixed, although the price of US gasoline fell 6% giving up its gains from Tuesday, while currency markets ended flat as they consolidated yesterday’s gains with the NZD/USD at 0.6640 and AUD/USD 0.7260

In a move that is bound to accentuate tensions between Australia and China, Australian Prime Minister, Scott Morrison, is seeking veto powers over China funded domestic deals.

The Government is seeking powers to cancel new and existing agreements between a foreign power, i.e. China, and local state governments, councils and universities. This would include the 2018 MOU which Victoria signed with China on its Belt and Road Initiative, and any infrastructure contracts that result from it.

Nevertheless, Chinese industrial profits increased a mammoth 19.6% for the 12-months to July, up from June’s 11.5% annualised increase.

Australian Private capex for the June quarter slipped 5.9% (expected -8.2%) as capex plans have been scaled back further in response to the COVID-19 recession.

In a warning, BoJ monetary policy board member Suzuki stated that, for Japan, the BoJ *“must be mindful of the demerits of prolonged, low-interest rate environment are accumulating. The effect of monetary easing could be curtailed if firms pile up savings instead of using profits to boost wages, capex.”* Where has he been the last 30 years?

News no one expected

The UK press has announced government officials are discussing the possibility of a London-NY travel bubble. This must be some mad business leader’s idea as neither city has done a good job in managing the pandemic!

Walmart has entered the race for TikTok, in partnership with Microsoft. Excellent, with every purchase of a frozen pizza you’ll be able to get a free video clip from a social media influencer!

**BANCORP**

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DAILY RATES

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FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	71.85					CAD	0.8709 0.9522
NZD/USD	0.6639	0.0000	-0.0001	-0.0002	0.0001	CHF	0.6032 0.6595
NZD/AUD	0.9146	-0.0001	-0.0003	-0.0007	-0.0002	CNY	4.5765 5.0038
NZD/JPY	70.75	-0.02	-0.09	-0.23	-0.40	DKK	4.1804 4.5707
NZD/EUR	0.5616	-0.0004	-0.0012	-0.0025	-0.0045	FJD	1.4068 1.5381
NZD/GBP	0.5029	-0.0001	-0.0003	-0.0007	-0.0009	HKD	5.1447 5.6250
						KRW	787.92 861.50
AU TWI	61.90					MYR	2.7689 3.0274
AUD/USD	0.7259	0.0001	0.0002	0.0003	0.0002	NOK	5.9132 6.4653
AUD/NZD	1.0934	0.0001	0.0004	0.0008	0.0002	SEK	5.7918 6.3326
AUD/JPY	77.36	-0.02	-0.07	-0.19	-0.42	SGD	0.9069 0.9915
AUD/EUR	0.6141	-0.0003	-0.0010	-0.0023	-0.0047	TWD	19.51 21.34
AUD/GBP	0.5498	-0.0001	-0.0001	-0.0004	-0.0008	ZAR	11.3226 12.3798
USD Index	92.99						
EUR/USD	1.1820	0.0007	0.0023	0.0049	0.0096	EQUITIES	
USD/JPY	106.58	-0.03	-0.12	-0.31	-0.61		Index
GBP/USD	1.3202	0.0002	0.0006	0.0015	0.0024	NZX50	12,053
EUR/GBP	0.8954	0.0004	0.0013	0.0027	0.0056	ASX200	6,126
						Dow Jones	28,529
						S&P 500	3,497
						FTSE100	6,000
						DAX 30	13,096
						Nikkei	23,209
						COMMODITIES	
							USD
						Dubai Light	44.42
						Brent Crude	45.07
						Gold	1,930.48
						Silver	27.04
						CRB Index	162.20

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.29%	0.25%	0.09%	0.09%
90 day bank bills	0.30%	0.26%	0.11%	0.07%
FRA 90d in 3mths	0.32%	0.25%	0.14%	0.09%
FRA 180d in 6mths	0.08%	0.05%	0.16%	0.12%
1 year swap*	0.17%	0.14%	0.12%	0.10%
2 year swap*	0.10%	0.07%	0.15%	0.14%
3 year swap*	0.11%	0.08%	0.20%	0.19%
5 year swap*	0.19%	0.16%	0.38%	0.37%
10 year swap*	0.58%	0.54%	0.84%	0.82%
10 year Govt bond		0.55%		0.92%

* Semi-annual rate resets except AUD 1,2,3 year quarterly

SOURCE: Bloomberg

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